

North Shore Office Market



March 2025

The structural shift of flight to quality and amenity is evident with a clear divergence in demand for best in class assets

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Key Insights

Improved sentiment and outlook will bode for deal flow over 2025



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2.3%

Premium grade vacancy

In North Sydney, lowest compared to all CBD precincts and other major NSW markets.



8.5K

Overall net absorption

Positive net absorption over 2024 in North Sydney.



38%

Elevated incentive levels

Prime grade incentives averaging 38% across the North shore markets.



3.8%

Annual face rental growth

Prime net face rents average \$928/sqm in North Sydney, an increase of 3.8% y/y.



53bps

Yield softening y/y

Prime yields in North Sydney softening by 53bps y/y to average 6.9%



\$335m

2024 transaction volumes

An increase on 2023 volumes but well down on the five year average.

North Shore Office Market Indicators – January 2025

Market	Grade	Total Stock sqm	Vacancy Rate %	6 Mths Net Absorption sqm	6 Mths Net Additions sqm	Average Net Face Rent \$/sqm	Average Incentive % ^	Core Market Yield %*
North Sydney	Prime	391,537	17.8	-4,913	0	928	35-40	6.50-7.50
North Sydney	Secondary	549,677	27.8	3,424	0	896	35-40	7.50-8.25
North Sydney	Total	941,214	23.7	-1,489	0			
St Leonards	Prime	137,256	26.1	-7,494	0	669	38.5-42.5	7.50-8.25
St Leonards	Secondary	220,162	33.2	-6,543	0	573	35-40	8.00-8.75
St Leonards	Total	357,418	30.5	-14,037	0			
Chatswood	Prime	129,730	23.9	1,634	0	642	35-40	7.50-8.00
Chatswood	Secondary	137,274	11.8	2,918	-3,999	520	35-40	8.00-8.50
Chatswood	Total	267,004	17.7	4,552	-3,999			
Macquarie Park	Prime	673,800	19.2	4,582	0	470	35-40	7.00-7.50
Macquarie Park	Secondary	271,549	18.1	-773	0	393	35-40	8.00-8.75
Macquarie Park	Total	945,349	18.9	3,809	0			

^ Incentives are on a gross basis; * assuming WALE 5 years
Source: Knight Frank Research/PCA

North Sydney

PREMIUM ASSETS ATTRACT OCCUPIERS

Occupier demand and deal flow improved over 2024, with positive net absorption levels recorded in North Sydney for the first time in over three years. This has been led by positive activity in the prime market with positive absorption of 10,453sqm recorded in the 12 months to January 2025. This has resulted in prime vacancy declining from 20.5% to 17.8% over the year.

There is a clear divergence in demand for premium assets in North Sydney with premium grade vacancy tight at 2.3%. Occupier preferences are clear with the need for high quality office space with multiple amenity and transport options at the forefront. Best in class assets in North Sydney; 100 Mount Street, 1 Denison Street, 118 Mount Street, 40 Mount Street and 2-4 Blue Street have high occupancy rates, outperforming other assets in the market. The Sydney Metro and Victoria Cross station has only enhanced the appeal and connectivity of North Sydney and bodes well for future demand.

LIMITED PIPELINE POST COMPLETION OF VICTORIA CROSS OVER STATION DEVELOPMENT

With no major developments delivered in 2024 the current total office stock base in North Sydney is 941,214 sqm. North Sydney is the third largest metropolitan office market in NSW; of which prime grade stock accounts for 42% of the market, up from 25% ten years ago.

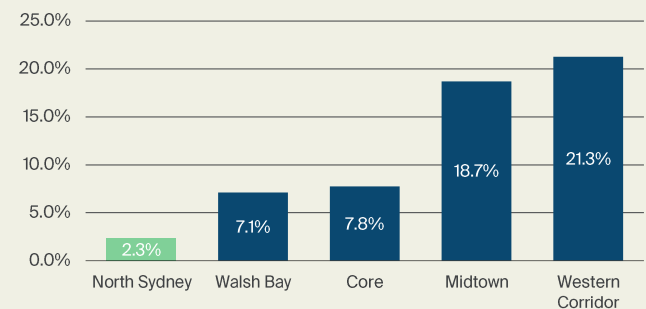
The last two developments in North Sydney were completed in 2023, including 88 Walker Street (12,501 sqm) and 2-4 Blue Street. The next major development for North Sydney is Lendlease's Victoria Cross OSD (55,000 sqm) due for completion by the end of the year. Beyond this, Affinity Place (59,000sqm) is DA approved and seeking pre-commitments along with multiple schemes which are still mooted including major refurbishment at 105 Miller Street (28,000sqm). If these schemes proceed, they will not enter the market until at least 2029, allowing for current stock levels to be absorbed.

FACE RENTS AND INCENTIVES RISE

There has been solid growth in face rents in North Sydney, with average prime net face rents increasing by 3.8% over the year to measure \$928/sqm (\$1,093/sqm gross) as at January 2025. In the secondary market, growth has been limited to 1.1% over the year to currently measure \$742/sqm (\$896/sqm gross face). Incentives edged higher over the year to now average 38.7% which has resulted in no movement in net effective rents in the prime market to average \$505/sqm. Incentives have likely peaked and will stabilise over the near term which will see net effective rents return to growth.

Sydney premium grade office vacancy

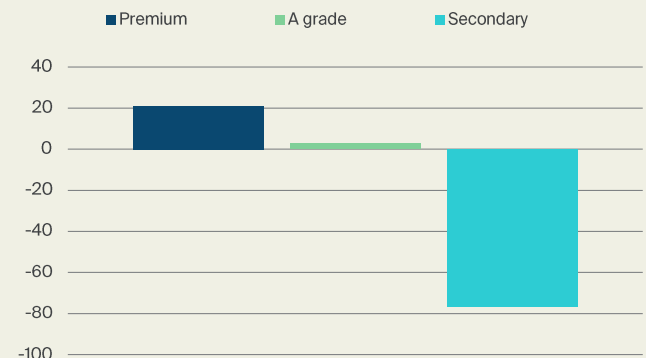
By market, as at January 2025



Source: Knight Frank Research, PCA

North Sydney office demand by grade

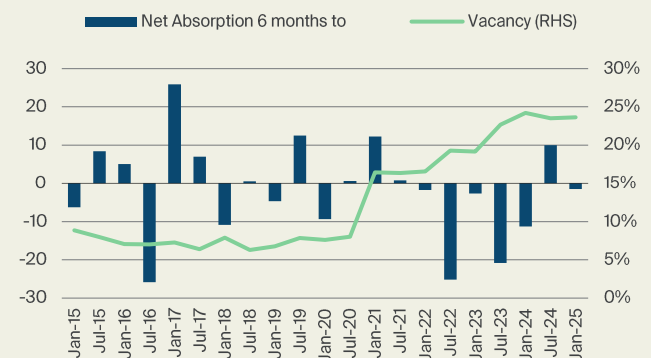
Total absorption since 2021 ('000sqm)



Source: Knight Frank Research, PCA

North Sydney vacancy and net absorption

'000 sqm, %



Source: Knight Frank Research, PCA

Macquarie Park

POSITIVE OCCUPIER DEMAND IN 2024

Overall vacancy in Macquarie Park continued to ease to 18.9% in January 2025 after peaking at 20.1% in January 2024. Net absorption in the second half of 2024 was positive with 3,809 sqm, bringing annual net absorption to positive 19,293 sqm. The positive tenant demand has been supported multiple lease deals including Arrotex Pharmaceuticals taking 2,200 sqm at 1 Giffnock Avenue, Hyundai Capital securing 1,300 sqm at 1 Eden Park Drive and MulitLit leasing 1,200 sqm at 15 Talavera Road.

By building grade, prime vacancy dropped slightly from 19.9% to 19.2% in six months to January 2025, with a positive net absorption of 4,582 sqm. The secondary vacancy was up from 17.8% to 18.1% in the second half of 2024, with net absorption reported at negative 773 sqm.

LARGEST METRO OFFICE MARKET IN NSW

The office stock in Macquarie ended 2024 at 945,349 sqm, with prime space constituting 71% of the total stock. The year 2024 saw the refurbishment of 73 Talavera Road bringing 9,300 sqm back to the market. This takes Macquarie Park to be the largest metro office market in NSW.

Looking ahead, construction is due for completion this year at stage 2 of M_Park at 15&17 Khartoum Road (c.25,000 sqm). Of note is 17 Khartoum Road has been fully committed by Johnson & Johnson (c.15,000 sqm).

RISING FACE RENTS AND INCENTIVES

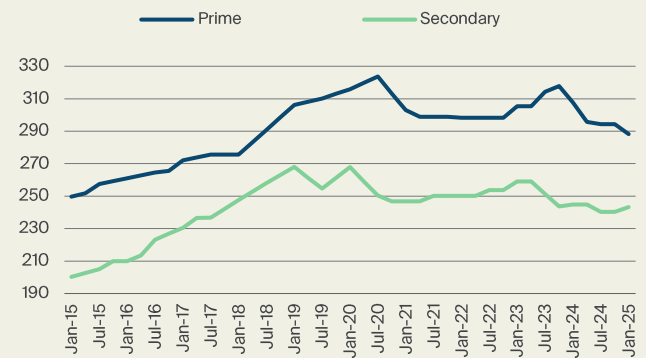
Average prime net face rents in Macquarie Park measured \$470/sqm (\$595/sqm gross face), representing a 2.2% increase over the year to January 2025. Similarly, secondary net face rents reported 2.6% growth over the same period to average \$393/sqm (\$518/sqm gross face).

Both prime and secondary incentives edged up from 36% in January 2024 to 38% in January 2025, in line with other North Shore markets. However, notably, landlords are offering higher incentives than this to retain and attract occupiers as the influx of new supply has raised competition among prime buildings.

Meanwhile, the rising incentives have offset the positive face rental growth over the year, with prime net effective rents decreasing by 1.0% to average \$291/sqm and secondary net effective rents trimmed down slightly by 0.6% to average \$243/sqm in the last 12 months to January 2025.

Macquarie Park net effective rents

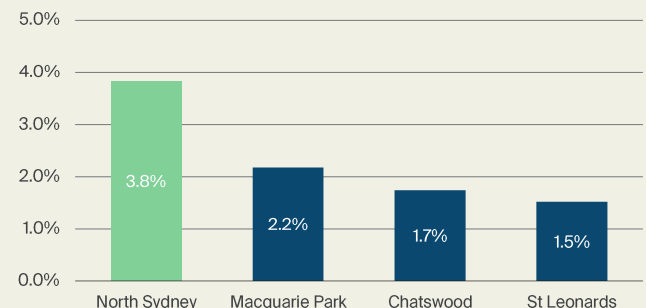
Average rent by grade, \$/sqm



Source: Knight Frank Research

North Shore office annual rental growth

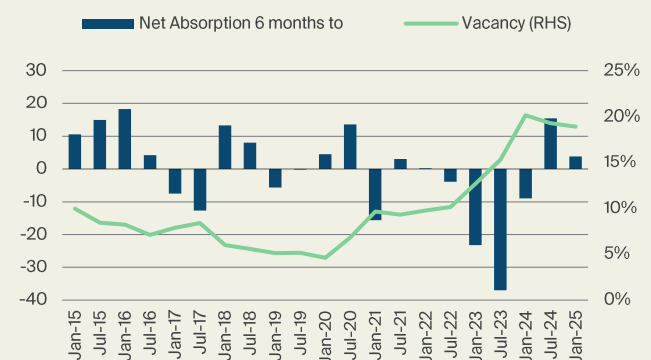
Net face rental growth, %



Source: Knight Frank Research

Macquarie Park vacancy and net absorption

'000 sqm, %



Source: Knight Frank Research, PCA

St Leonards

SUBDUED OCCUPIER DEMAND

Occupier demand across St Leonards remains subdued. The market has struggled to bounce since the pandemic given increased competition across other North Shore markets and the CBD. Overall absorption for 2024 measured negative 16,399sqm, driven by a constrained secondary market. Overall vacancy has risen to its highest level on record of 30.65% as at January 2025.

By grade, the prime market has seen some deal flow which has seen absorption levels record negative 1,377sqm for 2024, this led to slight increase in vacancy over the year to currently measure 26.1%. Whilst overall demand is weak, the flight to quality shift is prominent with the most recent development at 558 Pacific Highway experiencing strong enquiry levels and multiple deals signed including Richard Crookes, GHD and Rural Affinity. In contrast with the prime market, secondary demand has been limited with negative absorption of 15,022sqm over the year, leading to an increase of vacancy to 33.2%, the highest level on record.

METRO STATION IMPROVES AMENITY AND CONNECTIVITY

The Crows Nest Metro station has significantly improved connectivity and serviceability to the area and will enhance the appeal of the precinct to occupiers. In conjunction with multiple prime grade options there will likely be strong appeal to occupiers in secondary assets to upgrade, which will likely see a greater divergence between the prime and secondary grade.

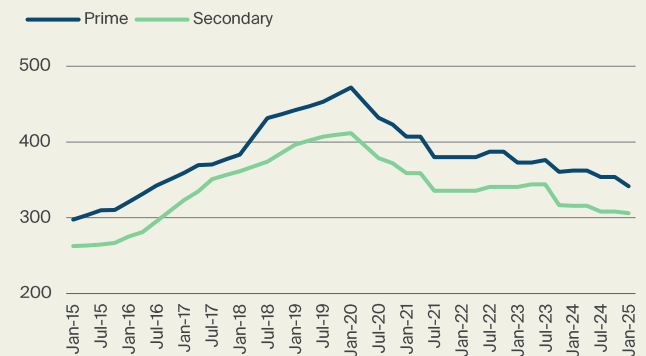
The North Shore health care precinct has established itself as one of the world class healthcare and educational hubs and is at the forefront for healthcare-related real estate as an institutional investment target. This will not only appeal to investors but also have a positive impact on demand with occupiers, seeking prime grade amenity in proximity to a health and education precinct.

LIMITED RENTAL GROWTH COUPLED WITH A RISE IN INCENTIVES

Given the high vacancy levels and subdued demand across St Leonards face rental growth has been limited. Average prime net face rents currently measure \$669/sqm (\$818/sqm gross) an increase of 1.5% over the 12 months to January 2025. Incentives have increased over the year to average 40%, which has resulted in a decline of 5.7% for net effective rents. In the secondary market average net face rents are unchanged over the year to average \$573/sqm (\$701/sqm gross).

St Leonards office net effective rent

Average rent by grade, \$/sqm



Source: Knight Frank Research

St Leonards Park Vacancy

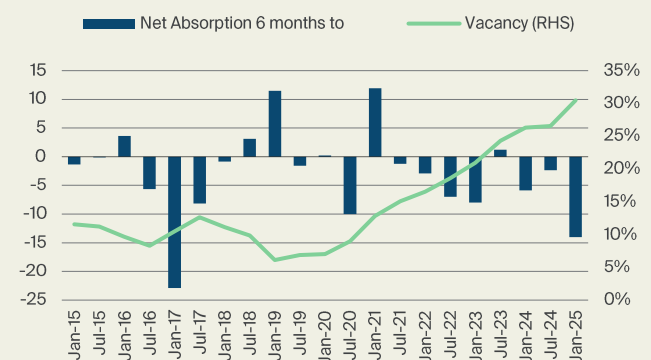
% by grade



Source: Knight Frank Research, PCA

St Leonards vacancy and net absorption

'000 sqm, %



Source: Knight Frank Research, PCA

Chatswood

POSITIVE ABSORPTION EASED VACANCY IN THE SECOND HALF OF 2024

Overall vacancy in Chatswood declined from 20.6% to 17.7% over the six months to January 2025, recording the lowest vacancy across the North Shore market. Direct vacancy was down from 19.6% to 17.3% over the same period, while sublease vacancy measured 0.4% in January 2025. The net absorption in the second half of 2024 was reported at positive 4,552 sqm, taking the annual basis absorption to negative 207 sqm.

More specifically, prime vacancy decreased from 25.1% to 23.9% in the six months to January 2025 with a positive absorption of 1,634 sqm. Meanwhile, vacancy in the secondary market dropped from 16.4% to 11.8% attributing to the 3,999 sqm withdrawal and 2,918 sqm positive absorption. The withdrawal of 282 Victoria Avenue will see the building converted to an apartment complex.

Looking ahead, there are no major office developments scheduled in Chatswood in the near term which will aid the recovery of the market and help absorb current stock levels.

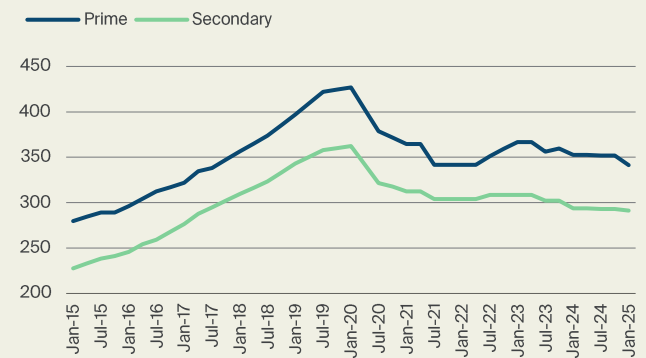
ON RISE INCENTIVES TO DECLINE EFFECTIVE RENTS

Average net face rents increased by 1.7% to \$642/sqm (\$791/sqm gross face, up by 2.3%) over the 12 months to January 2025. The secondary net face rents held flat over the same period measuring \$520/sqm (\$654/sqm gross face). The current rental discount between prime and secondary has reached a historical high of 19%.

Prime incentives have edged up to 38%, declining the net effective rents by 3.2% to an average of \$341/sqm in 2024. Incentives in the secondary market sit at 35%, decreasing the net effective rents by 0.8% y/y, ending 2024 at \$291/sqm.

Chatswood net effective rents

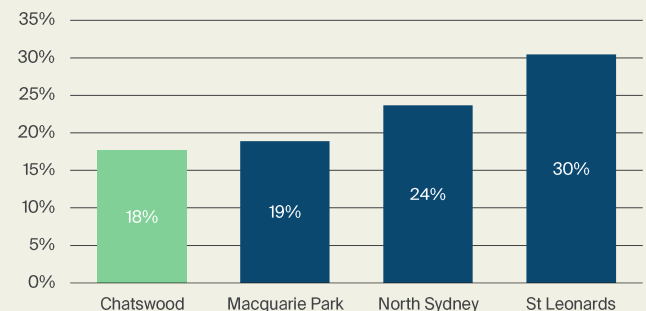
Average rent by grade, \$/sqm



Source: Knight Frank Research

North Shore office vacancy

Overall vacancy, %



Source: Knight Frank Research, PCA

North Shore office net absorption

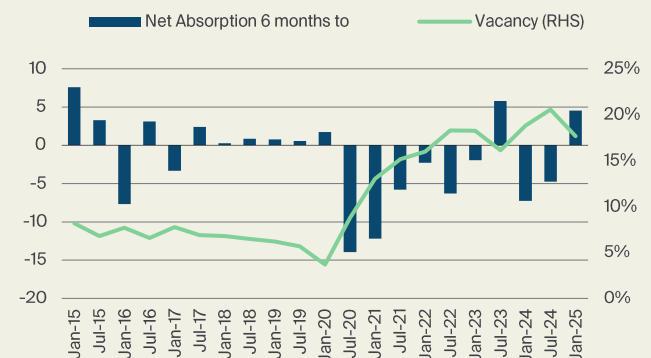
By market, '000 sqm, 6 months net absorption to January 2025



Source: Knight Frank Research

Chatswood vacancy and net absorption

'000 sqm, %



Source: Knight Frank Research, PCA

North Shore investment

TRANSACTIONAL ACTIVITY ANTICIPATED TO PICK UP IN 2025

Transaction activity across the North shore remains subdued since 2023 given the higher debt costs over this time and investor preferences seeking core CBD assets and other asset classes. The two major transactions in 2024 include 40 Miller St, North Sydney, divested by Mirvac for \$141 million to Barings - a US-based investment manager. The sale reflected a core market yield of 7.4% and c.16% discount to its book value. Additionally, 116 Miller Street sold for \$80m to an offshore private investor on a core market yield of 8.2%. Looking ahead, there are assets for sale or in due diligence stage which should see deal volumes increase over 2025.

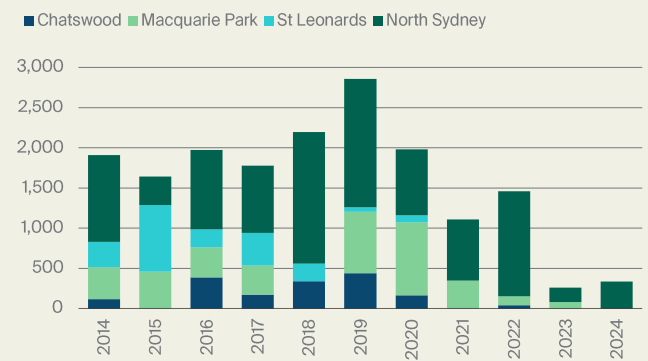
WIDENING YIELD SPREAD AGAINST CBD

Yields have now stabilised across the North Shore markets, following a period of significant yield softening. The average prime yield in North Sydney is 6.9%, unchanged over the second half of 2024, however this represents softening of over 200bps since 2022. The current yield spread against the Sydney CBD is 82bps, the highest since 2017. The average prime yields across the rest of the North Shore markets currently range between 7.25% to 8.0%, while secondary yields range between 8.25% to 8.75%.

With yields being substantially reset in the North Shore markets and the first rate cut from the RBA, providing a clear outlook, investment volumes are expected to pick up as investors turn to acquisition mode. The disconnect between vendor and purchaser expectations is now more aligned and declining book values have now come to fruition which will further aid deal flow.

North Shore office sales \$10m+

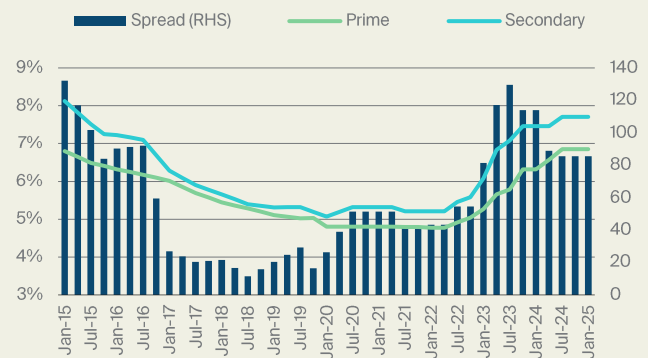
By precinct (\$m), 2014 to 2024



Source: Knight Frank Research

North Sydney office yields

Prime vs secondary



Source: Knight Frank Research

Recent significant sales

Property	Price \$ m	Core Market Yield %	NLA sqm	\$/sqm NLA	WALE	Purchaser	Vendor	Sale Date
116 Miller Street, North Sydney	80.0	8.2	11,368	7,037	0.9	Offshore private	Private	Sep-24
40 Miller St, North Sydney	141.0	7.4	12,615	11,177	4.1	Barings	Mirvac	Jun-24
124 Walker St, North Sydney	95.5	7.7	11,006	8,677	1.8	Ho-Group	Dexus Wholesale Property Fund	Dec-23

Source: Knight Frank Research



Recent significant tenant commitments

Occupier	Property	Precinct	Size sqm	Face Rent \$/sqm	Incentive %	Start Date
Workday Australia ~	100 Pacific Hwy	North Sydney	1,194	935	36%	Q3-25
BBC Worldwide ~	2-4 Blue St	North Sydney	1,788	1,020	39%	Q2-25
Richard Crookes ~	558 Pacific Hwy	North Sydney	2,359	865	40%	Q3-24
Hyundai Capital Australia ~	1 Eden Park Dr	Macquarie Park	1,272	548	41%	Q3-24
Arrotex Pharmaceuticals ~	1 Giffnock Avenue	Macquarie Park	2,221	515	40%	Q3-24

Pre-commitment ^ Sublease ~ Direct * Renewal (g) gross face
Source: Knight Frank Research

North Shore major office supply

Property	Area (sqm)	Developer	Stage	Timing
M_Park Stage 2, 15&17 Khartoum Road, Macquarie Park	25,000	Stockland	U/C	H2 2025
Victoria Cross OSD, North Sydney	55,000	Lendlease	U/C	H2 2025
Affinity Place, North Sydney	59,000	Stockland	DA Approved	2029+
105 Miller Street, North Sydney#	28,000	Investa	Mooted	2029+

Refurbishment
Source: Knight Frank Research



We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.



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Recent Research



Sydney CBD Office Market Report 2025



Australian Industrial Review



Sydney City Fringe Office Market Report



Sydney Industrial State of the Market



Sydney CBD Office State of the Market



Economic Indicators report



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